



**TO: MEMBERS OF THE FACILITY ASSOCIATION**

**ATTENTION: CHIEF EXECUTIVE OFFICER  
ONTARIO RISK SHARING POOL PROJECT MANAGER**

**BULLETIN NO.: F18 – 012**

**DATE: FEBRUARY 27, 2018**

**SUBJECT: ONTARIO RISK SHARING POOL  
– JANUARY 2018 OPERATIONAL REPORT**

*A copy of this bulletin should be provided to your Chief Financial Officer and Appointed Actuary.*

Please be advised that the January 2018 Ontario Risk Sharing Pool Operational Report is now available on the Facility Association (FA) Portal at <https://portal.facilityassociation.com>.

**New this Month**

FA management was notified on January 31, 2018 by a member of a potential recorded case reserve overstatement. Management investigated and estimated the overstatement for the Ontario RSP as at October 31, 2017 as indicated in the table below.

*Estimated case reserve overstatement as at Oct 31, 2017*

**Case Reserve Overstatement**  
100 RSP ON

	Amounts in \$000s
2006	222
2007	194
2008	193
2009	593
2010	253
2011	27
2012	688
2013	695
2014	1,221
2015	2,440
2016	2,260
2017	2,480
<b>TOTAL</b>	<b>11,266</b>

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The overstatement of \$11.3 million represented 2.0% of total case reserves recorded at October 31, 2017 for the Ontario RSP, and 1.3% of nominal claims liabilities.

FA's year-end audited financial statements (as at October 31, 2017) were adjusted to reflect this overstatement by reducing the claims liabilities amount by the overstatement (as well as release of associated margins for adverse claims development). However, no adjustment has currently been made to reflect this in the Member Statements (i.e. monthly RSP Operational Reports). It is currently expected to be reflected via reductions in ultimate with the December 31, 2017 valuation, expected to be implemented into the March 2018 Operational Reports.

**Summary of Financial Results**

The calendar year-to-date Operating Result is -\$12.8 million and the incurred loss ratio to the end of 1 month is 131.5%, as summarized in the table below.

Amounts in \$000s	January 2018	January 2017	Year to date Jan 2018	Year to Date Jan 2017
Premium Written	21,028	28,876	21,028	28,876
Premium Earned	30,420	28,877	30,420	28,877
Incurring Losses	39,988	35,774	39,988	35,774
Underwriting & Admin Expense	3,185	8,870	3,185	8,870
<b>Operating Result</b>	<b>(12,753)</b>	<b>(15,767)</b>	<b>(12,753)</b>	<b>(15,767)</b>
<b>Ratios:</b>				
<b>Loss ratio</b>				
- Prior Accident Years	(6.7%)	(12.9%)	(6.7%)	(12.9%)
- Current Accident Year	138.2%	136.8%	138.2%	136.8%
<i>Total</i>	<b>131.5%</b>	<b>123.9%</b>	<b>131.5%</b>	<b>123.9%</b>
<b>Underwriting &amp; Admin Expense</b>	<b>10.5%</b>	<b>30.7%</b>	<b>10.5%</b>	<b>30.7%</b>
<b>Combined Operating Ratio</b>	<b>142.0%</b>	<b>154.6%</b>	<b>142.0%</b>	<b>154.6%</b>

*rounding differences may occur*

These results are discussed in some detail in the “Current Month Results” section. For additional numeric detail, please refer to Exhibit 1 “Summary of Operations for Calendar Year 2017” attached to this bulletin.

**Updated Projection to Year-end 2018**

The projected calendar year Operating Result to December 2018 is -\$265.9 million and the estimated combined operating ratio to December 2018 is 171.6%, as summarized in the table at the top of the next page. This updated projection to the end of the year has improved by \$2.6 million from the projection provided last month (-\$268.5 million and 171.8%). This improvement is driven by a \$3.9 million decrease in the projected written premium for the year.

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<b>ON RSP 2018 Yr-end Projection</b> Amounts in \$000s	<b>Current</b> <b>(Jan 2018)</b>	Prior Mth (Dec 2017)	<b>Change</b>	Final 2018 Outlook*
Premium Written	430,608	434,481	(3,873)	413,190
Premium Earned	371,397	374,075	(2,678)	382,147
Incurred Losses	474,026	477,735	(3,709)	487,967
Underwriting & Admin Expense	163,260	164,795	(1,535)	147,584
<b>Net Result from Operations</b>	<b>(265,889)</b>	<b>(268,455)</b>	<b>2,566</b>	<b>(253,404)</b>
<i>Ratios:</i>				
<b>Loss ratio</b> - Prior Accident Years	(5.8%)	(5.5%)	(0.3%)	(7.5%)
- Current Accident Year	133.4%	133.2%	0.2%	135.2%
<i>Total</i>	<b>127.6%</b>	<b>127.7%</b>	<b>(0.1%)</b>	<b>127.7%</b>
<i>Underwriting &amp; Admin Expense</i>	<b>44.0%</b>	<b>44.1%</b>	<b>(0.1%)</b>	<b>38.6%</b>
<i>Combined Operating Ratio</i>	<b>171.6%</b>	<b>171.8%</b>	<b>(0.2%)</b>	<b>166.3%</b>

*rounding differences may occur*

\*as posted to FA's website Oct. 3, 2017

*Current Month Results*

The Ontario Risk Sharing Pool produced a -\$12.8 million Operating Result in the month of January 2018, a \$3.0 million improvement compared with the same month last year. This improvement is composed of a \$3.8 million improvement stemming from the overall decrease in the combined ratio (from 154.6% to 142.0% applied to \$30.4 million in earned premium), offset by an estimated \$0.8 million unfavourable impact associated with a \$1.5 million increase in earned premium (at a combined ratio of 154.6%).

*Variances from Projections*

The table at the top of the next page provides a summary of key components of the operating results as compared to the estimates projected last month.

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<b>January 2018</b>	<b>Actual</b>	<b>Projection</b>	<b>Difference</b>	<b>Difference %</b>
Written Premium	21,028	24,901	(3,873)	(15.6%)
Earned Premium	30,420	31,270	(850)	(2.7%)
Reported Losses				
Paid Losses	27,130	25,165	1,965	7.8%
Paid Expenses	2,176	2,989	(813)	(27.2%)
Change in Outstanding Losses	8,732	4,449	4,283	96.3%
<b>Total Reported Losses</b>	<b>38,038</b>	<b>32,603</b>	<b>5,435</b>	<b>16.7%</b>
Change in IBNR Provision*	1,950	8,999	(7,049)	
Change in Premium Deficiency (DPAC)*	(3,251)	(2,193)	(1,058)	

(Amounts in \$000's)

rounding differences may occur

\*Detailed information is included in [Ontario RSP January 2018 Operational Report - Actuarial Highlights](#).

Each month, management reviews the variance between reported premium activity and claims activity (actual reported claims payments and changes in case reserves) and the associated actuarial projections. The projection process involves many assumptions including claims reporting patterns. Actual reporting patterns vary from month-to-month, sometimes considerably. Although variances from our projections are expected, management investigates variances beyond set thresholds and responds as appropriate.

For the month of January 2018, reported losses were \$5.4 million higher than projected. The Current Accident Year had a \$3.7 million unfavourable variance in reported losses, and the Prior Accident Years had a \$1.7 million unfavourable variance. Of the Prior Accident Years, 2016 had the largest variance in reported losses at \$1.8 million unfavourable. No other single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

The variances for claims activity were beyond the set thresholds for the Prior Accident Years for the month. Management investigated paid claims activity and is satisfied that the variances are appropriately accounted for in our current booking process. All other variances were within the set thresholds for the month.

*Booking IBNR*

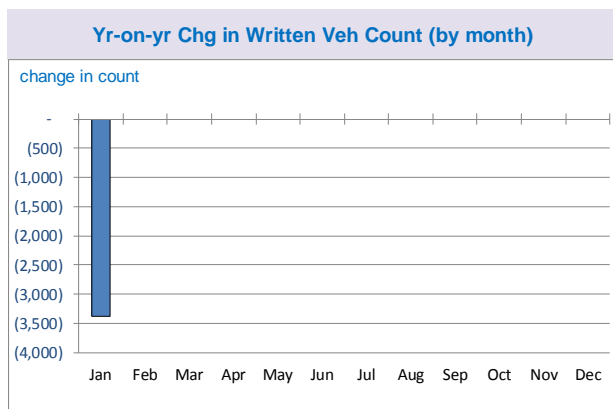
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium variances (as IBNR is based on loss ratios). This is consistent with management's investigation into reported claims variances concluding they were random and not necessarily indicative of a trend (other than the member reporting issue discussed in the previous section). IBNR is discussed in more detail in the [Ontario RSP January 2018 Operational Report – Actuarial Highlights](#).

### Effect of Quarterly Valuation

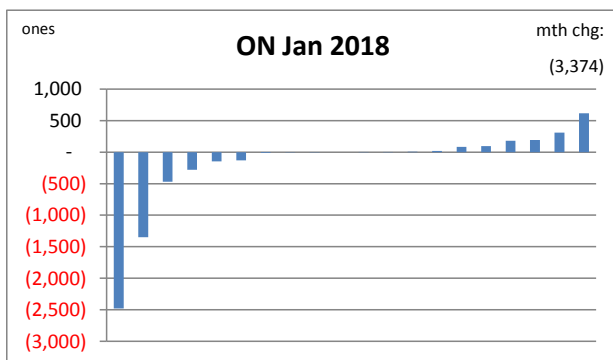
The January 2018 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at September 30, 2017). The actuarial valuation will be updated next as at December 31, 2017 and we anticipate that the results will be reflected in the March 2018 Operational Report.

### Management Comments

For the Ontario RSP, the transfer limit is 5.0% of exposures written in the prior year at the member company group level (that is, within a group under common management or ownership, a single member can transfer the entire transfer limit for the group). System programming prevents member groups from exceeding their transfer limits during a calendar year. However, member groups can transfer their entire limit for a given year at any time throughout the year including, for example, the last day of that year. Our current projection has the 2018 vehicle count up 13.2% from 2017, being 3.0% of the 2016 industry private passenger vehicle count including farmers (as we don't have an industry count yet for 2017, we continue to use the 2016 count as a proxy). There is the potential for the transferred vehicle count to change dramatically and quickly if member companies choose to take full advantage of their transfer limits.



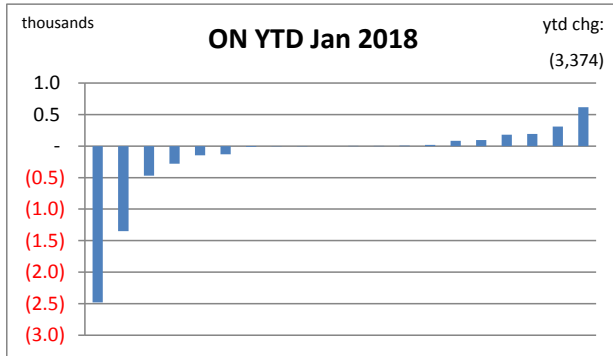
The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with January reporting a decrease of 3,374 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for a decrease of 2,103 vehicles, indicating a variance of 1,271 from the actual transfers. This variance was mainly due to one member company group transferring a lower number of vehicles to the pool in January than projected.



The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Nine member company groups transferred fewer vehicles to the pool this month compared to a year ago, while ten transferred more<sup>1</sup>, and one remained the same. Of the 9 member company groups transferring

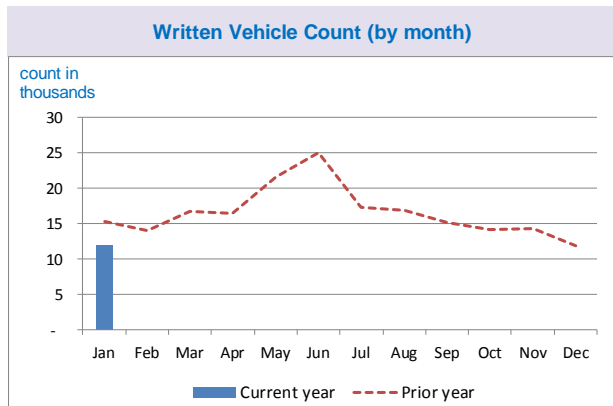
<sup>1</sup>For the purposes of discussion here, we only include those member company groups that transferred at least one vehicle in either 2016 or 2017. Groups that have not transferred vehicles in these two periods are ignored.

fewer vehicles, 2 member company groups accounted for 78% of the total transfer decrease for the “decliner” members. Of the 10 member company groups transferring more vehicles, 2 member company groups accounted for 61% of the total transfer increases for the “grower” members.

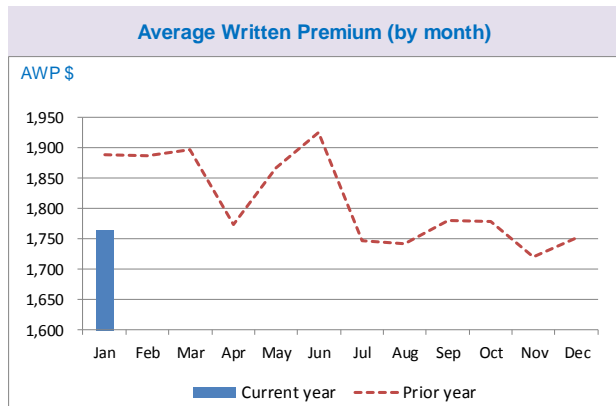


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change.

January’s year-on-year change in vehicle count transfers to the pool represents a 22.1% decrease from January 2017. Average written premium was down 6.6% in January 2018 compared with the same month in 2017 (see charts immediately below and at the top of the next page).

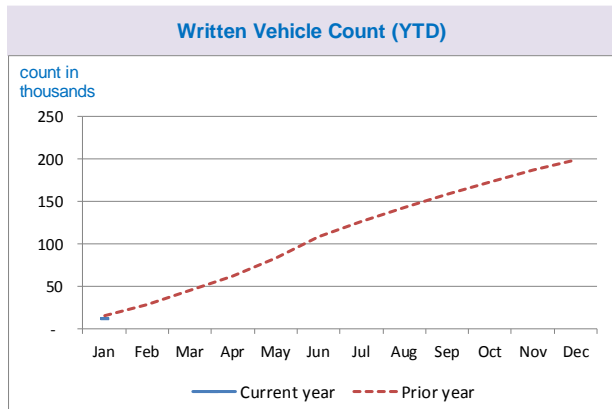


	Jan-18	Jan-17	Amt Chg	% Chg
W. Veh curr mth	11,913	15,287	(3,374)	-22.1%

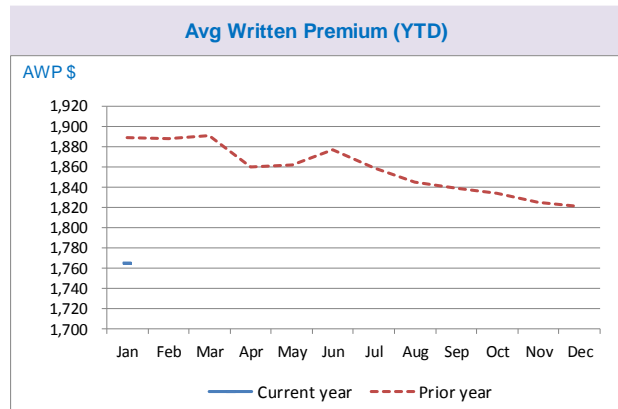


	Jan-18	Jan-17	Amt Chg	% Chg
AWP curr mth	1,765	1,889	(124)	-6.6%

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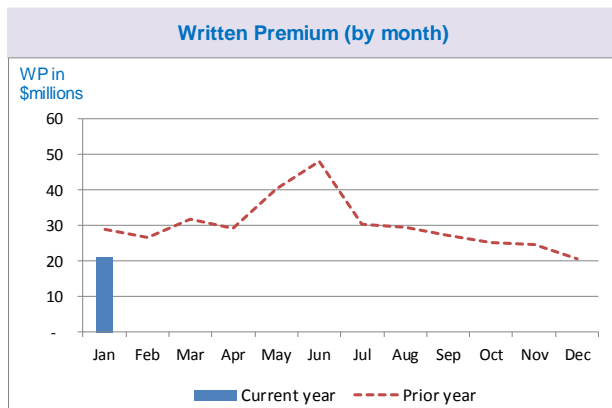


	Jan-18	Jan-17	Amt Chg	% Chg
W. Vehicles YTD	11,913	15,287	(3,374)	-22.1%

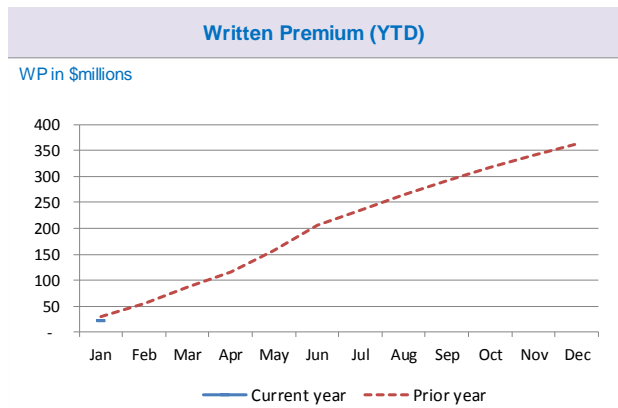


	Jan-18	Jan-17	Amt Chg	% Chg
Avg W. Prem YTD	1,765	1,889	(124)	-6.6%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was down 27.2% for the month compared with the 13.8% decrease we projected last month (see charts immediately below).



	Jan-18	Jan-17	Amt Chg	% Chg
WP (\$000s) curr mth	21,028	28,876	(7,848)	-27.2%



	Jan-18	Jan-17	Amt Chg	% Chg
WP (\$000s) YTD	21,028	28,876	(7,848)	-27.2%

Should you require any further information, please call Norm Seenev, Vice President, Finance and Member Services at (416) 644-4914.

David J. Simpson, M.B.A., FCIP, C. Dir.  
 President & CEO

**Related links:**

[Ontario RSP January 2018 Operational Report – Actuarial Highlights](#)

## SUMMARY OF OPERATIONS - CALENDAR YEAR 2018

Risk Sharing Pool - Ontario

Operating Results for the 1 Month Ended January 31, 2018 (Discounted basis)

EXHIBIT 1

Source: *Monthly Operational Report*  
(thousands of dollars)

	January	CY2018 YTD	CY2018 12 MONTHS Updated Projection	CY2017 12 MONTHS Actual
Net Premiums Written	\$21,028	\$21,028	\$430,608	\$362,505
Decrease (Increase) in Unearned Premiums	\$9,392	\$9,392	(\$59,211)	\$11,153
<b>Net Premiums Earned</b>	<b>\$30,420</b>	<b>\$30,420</b>	<b>\$371,397</b>	<b>\$373,658</b>
<b>Claims Incurred:</b>				
Prior Accident Years:				
Undiscounted	(\$355)	(\$355)	(\$355)	(\$47,673)
Effect of Discounting	(1,690)	(1,690)	(21,080)	(66,431)
Discounted	(\$2,045)	(\$2,045)	(\$21,435)	(\$114,104)
Current Accident Year:				
Undiscounted	\$37,624	\$37,624	\$455,321	\$455,722
Effect of Discounting	4,409	4,409	40,140	39,948
Discounted	\$42,033	\$42,033	\$495,461	\$495,670
<b>Claims Incurred</b>	<b>\$39,988</b>	<b>\$39,988</b>	<b>\$474,026</b>	<b>\$381,566</b>
<b>Underwriting Expenses:</b>				
Expense Allowance	\$6,354	\$6,354	\$128,819	\$110,765
Change in UPDR/DPAC:				
Undiscounted	(2,100)	(2,100)	24,004	6,769
Effect of Discounting	(1,151)	(1,151)	8,328	(8,538)
Discounted	(3,251)	(3,251)	32,332	(\$1,769)
<b>Underwriting Expenses</b>	<b>\$3,103</b>	<b>\$3,103</b>	<b>\$161,151</b>	<b>\$108,996</b>
<b>Net Underwriting Gain (Loss)</b>	<b>(\$12,671)</b>	<b>(\$12,671)</b>	<b>(\$263,780)</b>	<b>(\$116,904)</b>
<b>Administrative Expenses</b>	<b>\$82</b>	<b>\$82</b>	<b>\$2,109</b>	<b>\$1,430</b>
<b>Operating Result</b>	<b>(\$12,753)</b>	<b>(\$12,753)</b>	<b>(\$265,889)</b>	<b>(\$118,334)</b>
<b>Ratios:</b>				
<b>Claims &amp; Expenses Incurred (Earned)</b>				
Prior Accident Years	-6.7%	-6.7%	-5.8%	-30.5%
Current Accident Year	138.2%	138.2%	133.4%	132.7%
All Accident Years Combined	131.5%	131.5%	127.6%	102.2%
Underwriting & Administrative Expenses (Earned)	10.5%	10.5%	44.0%	29.6%
<b>Combined Operating Ratio</b>	<b>142.0%</b>	<b>142.0%</b>	<b>171.6%</b>	<b>131.8%</b>

Note: Amounts shown above do not reflect costs incurred directly by member companies e.g. income and premium taxes, health levies, association dues, cost of capital as a result of their compulsory participation in Facility Association and investment income earned on Facility Association premium dollars invested directly by members.

Rounding difference may apply